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Multiple Distribution Channels within Banks

by James B. Smith, Jr.

Some insurance companies view banks as a monolithic channel for the distribution of insurance products. However, there are at least 20 ways that banks distribute insurance products (see Table on page 3). A bank will select those distribution channels that effectively satisfy its customers' needs and buying habits. Further, the bank's selection should be compatible with its size, culture, risk tolerance, time frame, and prior bancassurance experience.

An example of a channel that matches customer needs and habits is the sale of life insurance via direct mail to Generation X customers. This customer segment typically has a need for term life insurance; however, they infrequently visit a bank lobby where a face-to-face solicitation can occur. Therefore, an offer in the customer's monthly bank statement may be an effective way to reach this customer.

What are some other distribution channels that banks currently use?

Bank Employees

Platform Personnel

Platform employees are bank personnel located in a branch lobby. They sell insurance products on a part-time basis because they also offer a wide range of traditional bank products, including checking accounts, savings accounts, and CDs. For the platform employee, a natural extension of CD sales is the offering of relatively simple products, such as fixed annuities.

Consumer Lending Department

Another natural extension occurs in the consumer lending department, which supplements its lending activity with the sale of credit and automobile insurance. Because of

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Distribution is King?

by Edward F. McKernan

It is interesting how one's perspective of *value* changes depending upon your employer affiliation. My employment experiences have included life insurance companies, consulting firms (including one of the big—six, five, four … it's difficult to keep track), and an insurance agency. During my consulting experiences, clients not only included insurance companies and agencies, but also financial institutions (e.g., banks, thrifts and S&L's).

During these experiences, regardless of the enterprise, *value* has often been defined as return on assets, profit margin, return on investment, embedded value, and so on. Through these experiences, however, the focus has always been, either directly or indirectly, on a stream of expected earnings. This was always a comfortable notion as it is consistent with our actuarial training, which taught us to focus on the profitability of a product or the appraisal value of a book of business in force.

However, now that I have become entrenched in the world of distribution, a common phrase that I often hear is: "Distribution is King." Now, mind you, I do not hear that phrase from my colleagues, but rather from the product manufactures … the insurance companies. The focus has changed from value in terms of product profitability to the value of distribution. And, not only has distribution become King, but the goals of

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companies have shifted to become the King of Distribution.

This shift has been evolving during the 90s and will continue into the next decade. Look at the focus of company mergers and acquisitions during the last several years: Travelers and Citicorp, AEGON and Providian and now Transamerica, Berkshire Hathaway and General Re, Cendant and American Bankers. The list continues, which also includes numerous insurer acquisitions of broker-dealers.

During the 80s, acquisitions were targeted to use existing capacity—either administrative or surplus. The focus was the value of the book of business being acquired with little value assigned to new business. A common thread of the more recent mergers and acquisitions has been the value of distribution, and the investment community loves it—just look at the P/E ratios. Better yet, what about those internet stocks—they are offering only the potential of distribution!

One of the long-standing goals of the Nontraditional Marketing (NTM) Section has been to explore "nontraditional" distribution systems. At one time this was considered a specialty niche—Can you believe it! Now, "exploration of nontraditional distribution systems" is becoming a buzz phrase. It seems we are now in the mainstream … or better yet, we were ahead of our time. However, instead of becoming complacent, we choose to stay one step ahead.

Focusing on distribution strategies, this spring we are cosponsoring a seminar on bancassurance, as well as SOA Spring meeting sessions on electronic commerce, internet marketing, bancassurance, financial institution trust departments, and direct response. With these topics, you can't help but learn how to add more value to your distribution endeavors on the path of becoming the King of Distribution. Proceeding along the NTM Section's chosen path, we will continue to support our membership in this endeavor and welcome any contributions you may offer in this regard.

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